

## Council Meeting Staff Report

January 16, 2019

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<b>Agenda No.:</b>	7.B
<b>Indexes (Council Goals):</b>	BCC - N/A
<b>Presenters:</b>	Bob Westervelt
<b>Legislative File:</b>	11569-19

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### Title

Initial Discussion - Water Rate Adjustment

### Recommended Action

**N/A - Discussion item only**

### Staff Recommendation

N/A - Discussion Item Only

### Body

The ten-year forecast for the water utility presented with the FY2019/20 budget includes a series of incremental rate increases to generate revenues needed for current operations and to build cash reserves necessary for future infrastructure needs. Over the course of several meetings of the Board of Public Utilities in the fall of 2016 several alternative scenarios were considered. After discussion, "scenario 40" was selected as the most reasonable balance between increased rates and necessary system expenditures, and was the foundation upon which the ten-year budgetary projection was based. A 6.25% increase in both retail and wholesale sales is proposed, plus an increase from \$2.50 per 1000 gallons to \$2.66 per 1000 gallons for non-potable water sales. The increase for water distribution was included in the FY2019 budget. Although included in "Scenario 40", the increases proposed for water production and non-potable were not initially included in the 2019 budget. An 8% increase previously proposed for water production was never implemented, however, so it is proposed here to include Production and Non-Potable sub funds in the increase. The increases are proposed for implementation effective with our customer's first billing period beginning after April 1<sup>st</sup>, 2019. The ten-year projections for Water Distribution and Water Production are attached as attachments B1 and B2, respectively.

The proposed draft water rate schedule is attached as Attachment A.

This and future proposed rate actions should restore cash flow to an acceptable level. While it may take some time to reach our target levels in the Water Utility overall, this plan will provide adequate funding for necessary repairs and replacements and continuing operations and provide for movement toward our long-term cash reserve goals.

While we have seen some significant rate increases in recent years, and additional more modest increases are projected in the long-range plan, Los Alamos remains affordable and competitive. Attachment C1 shows a comparison of Los Alamos' projected annual residential water bill with those of nearby communities, using 6,000 gallons as a representative consumption quantity. Attachment C2 shows a comparison of monthly bills with the same communities, but at various consumption quantities. Both show that after the proposed increase Los Alamos remains competitive with its neighboring communities.

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Attachment D1 shows the longer-term rate projections included in the first ten years of “scenario 40” and includes the dollar amount of the projected annual increase per household. Total utilities costs is another important measure, and is displayed for the same time frame in attachment D2.

### **Alternatives**

Several alternative financial scenarios were presented and discussed by the Board in 2016. In addition, Jack Richardson, Deputy Manager GWS, has updated some of that information previously presented for presentation to the Board here this evening. Any of those paths forward could be considered as an alternative to the proposal presented here. As noted above, in all the scenarios discussed a series of rate increases are going to be needed to fund necessary operations and replacement of facilities through rates. Other scenarios could be considered with more significant rate increases being implemented to fund more rapid system upgrades. If no action is taken, we would have to continue to curtail maintenance and replacements and system reliability would eventually suffer.

### **Fiscal and Staff Impact/Planned Item**

The budgeted 6.25% increase is expected to generate \$254,829 additional revenue in DW, \$79,233 additional revenue for wholesale sales to external parties, and \$14,464 additional Non-Potable revenue annually.

### **Attachments**

- A Division\_4\_\_WATER\_RATES
- B FY2019 Budget ten-year budget projections
  - 1 Water Distribution
  - 2 Water Production and Non-Potable
- C FY2019 Comparison to similar neighboring communities
  - 1 Annual, using 6,000 gallons average monthly consumption
  - 2 Monthly at various consumption quantities
- D Ten-year rate projections under “Scenario 40”
  - 1 Annual impact on average residential customer for Water only.
  - 2 Projected average residential utilities cost projections